

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND COUNCIL ON THE CITY OF CAPE TOWN

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated financial statements of the City of Cape Town which comprise the consolidated and separate statement of financial position as at 30 June 2010, and the consolidated and separate statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 76 to 140, 144 and 146.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the City of Cape Town as at 30 June 2010 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainty

8. With reference to note 49.2 to the consolidated financial statements, the municipality is party to contractual claims by its suppliers that are subject to mediation. Included in the total estimate is a disputed amount of R130 million which relates to the professional fees on the construction of the Cape Town Stadium. The ultimate outcome of these claims could not be determined at year end and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 47 to the consolidated financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during the 2010 financial year in the consolidated cash flow statement of the City of Cape Town at, and for the year ended, 30 June 2009.

Material losses

10. As disclosed in note 43.3 to the consolidated financial statements, material losses to the amount of R493,86 million were incurred as a result of non-revenue water consumed by informal settlements and low income households for which no income is received by the municipality, other unmetered consumers in the municipality such as fire and parks services, burst pipes and other leakages.
11. Note 43.3 to the consolidated financial statements discloses electricity losses amounting to R485,55 million that were also incurred. This is as a result of technical losses caused by the nature of electricity and the way it is conducted, via lines, status/condition and age of the network, weather conditions, and load on the system, as well non-technical losses such as theft and vandalism.

Material underspending of the budget

12. As disclosed in Appendix E to the consolidated financial statements the municipality has materially under spent its capital budget to the value of R950,07 million (17%). As a consequence, the municipality has not fully achieved the service delivery objectives as detailed in the appendix.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

13. The supplementary information set out on pages 141 to 143, 145 and 147 does not form part of the consolidated financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, DoRA and Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and financial management (internal control).

Predetermined objectives

15. There were no material findings on the report on predetermined objectives as set out on pages 162 to 181.

Compliance with laws and regulations

16. There were no material findings concerning non-compliance with the key laws and regulations listed above.

INTERNAL CONTROL

17. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the relevant laws and regulations, but not for the purposes of expressing an opinion on the effectiveness of internal control.
18. The matters reported are limited to the significant deficiencies that gave rise to the basis for opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations. There were no material findings to report with regard to the aforementioned.

OTHER REPORTS

Investigations in progress

19. There are on-going investigations related to allegations that a senior official of the municipality was renting municipal property to private citizens in his personal capacity as well as investigations related to allegations of irregularities related to the allocation and distribution of houses in certain suburbs.
20. An investigation was authorised into allegations of irregular appointments in the Safety and Security Directorate. It was found inter alia that there were inconsistencies in the process however no evidence was found of nepotism or ill intent. Certain appointments were stopped and the process was started anew.
21. An investigation was authorised into allegations that the performance evaluation process for the Section 56 appointed staff did not comply with Municipal Performance Regulations. The investigation found inter alia no evidence of fraud or ill intent but did establish non-compliance with Municipal Performance regulations; consequently Council has ordered that the process be started anew.

Investigations completed during the financial year

22. During the year, a number of investigations relating to the contravention of supply chain management policies and procedures were conducted. The investigations were initiated based on allegations made by management as well as through the fraud hotline. The nature of cases investigated included possible collusion by service providers and tenderers and deviations from policies in the extension or granting of contracts and tenders. Where evidence could be found of deviations, or fruitless and wasteful or irregular expenditure, these matters were properly disclosed in the financial statements. Some of the investigations also resulted in disciplinary proceedings being instituted against employees. In a number of cases no evidence could be found to support the allegations. An investigation was conducted into a request for condonation and deviation from SCM regulations for a tender awarded during the year. The investigation established inter alia that the project management systems and process were deficient and that the municipality needed to put in place a contract management tracking system to monitor existing contracts.
23. The municipality was requested to report on the N2 Gateway Project to the National Standing Committee on Public Accounts. The forensic investigation has been completed and a criminal case has been reported to the South African Police Force.

24. An investigation was authorised into allegations that there was mismanagement with the implementation of the Integrated Rapid Transport or Bus Rapid Transport system (IRT/BRT). The investigation revealed inter alia that there was no criminality or ill intent involved in the procurement processes or project management of the BRT. There were irregularities with the project management which resulted in the underestimation of the costing for the project.

Agreed upon procedures engagement

25. As requested by the City of Cape Town, an engagement was conducted during the year under review related to the municipality's Domestic Medium-Term Note Programme and the third issue of notes thereto. The procedures performed were in terms of the listing requirements as stipulated by the Bond Exchange of South Africa and included, amongst others, a review of the compliance with the Municipal Regulations on Debt Disclosure issued in terms of the MFMA and accuracy of the information presented in the pricing supplement supplied to prospective subscribers of the notes. The report covered information presented in the annual report for the year ended 30 June 2009 and was submitted on 15 March 2010.

Auditor General

Cape Town

21 December 2010



AUDITOR - GENERAL
SOUTH AFRICA

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